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The Post-WTO Accession Rice Market 2002

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Report Highlights:

While the ban on rice imports was formally lifted when Taiwan acceded to the WTO on January 1, 2002, imports will not actually begin until March. Under a minimum market access (MMA) quota, Taiwan must import a total of 144,720 mt on a brown rice basis (equivalent to about 127,350 mt on a milled rice basis) in 2002, of which 65 percent will be government imports and 35 percent private imports.

Includes PSD changes: No
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The Post-WTO Environment for Rice Imports

Taiwan became a member of the WTO on January 1, 2002. On December 31, 2001, Taiwan formally lifted the ban on rice imports and announced procedures for importing. By early to mid March, Taiwan is expected to begin both private and public imports of rice, a key market-opening concession under Taiwan's WTO accession agreement. Under a minimum market access (MMA) quota, Taiwan must import a total of 144,720 mt on a brown rice basis (equivalent to about 127,350 mt on a milled rice basis) in 2002, of which 65 percent (94,068 mt) will be government imports and 35 percent (50,652 mt) private imports. The rice import quota for 2003 and beyond will be determined through negotiations between Taiwan and other WTO contracting parties.

The private rice import market of 44,570 mt, on a milled basis, is expected to be highly competitive for those exporters who can supply high quality medium grain japonica rice. Besides the United States, Australia and Mainland China are expected to compete strongly. It is expected that the quality of private imports of japonica rice will meet China National Standard (CNS) 1st grade or above (see Appendix below). In addition, specialty rices, like organic brown rice, or non-traditional varieties (for Taiwan consumers, at least), like fragrant long-grain rice are expected to gain market share. Most private imports will be targeted at the consumer market, with limited amounts going to the hotel/restaurant/institutional (HRI) trade. Private imports are expected to begin in mid-March through an allocation system under which importers pay a "markup" to the government for the quota rights.

Government imports are currently expected to be mainly brown japonica rice for further milling of medium quality, based on international standards which generally meet CNS 2nd or 3rd grade. Government purchases will be through a public tender using government procurement procedures. Generally, government-purchased rice is used to supply the military, prisons, and other government institutions. Depending upon the local supply-demand situation, some government-purchased rice also moves into normal commercial channels. Post understands that the Government will announce a schedule for public tenders in mid-February and begin actual tenders 21 days later.

Expected Timetable of Announcements and Procedures

On December 31, 2001, Taiwan's Council of Agriculture (COA) publicly announced the rice minimum market access (MMA) quota application plans for private imports in the official journal. The announcement is

available online at <http://www.coa.gov.tw/> in Chinese language. The English language version of MMA implementation plans for private imports will be available later. Applications for private rice import quota rights will be due on March 6, 2002.

According to COA, rice quota applications will be divided into several sessions. Each session is a period of two weeks, and is associated with a decrease of NT\$3/kg in the markup (the sum of other fees, charges, and markups for the rice importation) starting with ceiling NT\$23.26/kg until all rice quotas are allocated on a first-come, first-served basis. The in-quota duty is zero (no out-of-quota imports are permitted). More than 7,000 registered grain business licensees are eligible to apply for rice import quota rights. Registered grain business licensees include rice millers, food importers, and store chains

With respect to government imports, COA is scheduled to publicly announce the tender schedule in mid-February, after the Chinese lunar New Year holidays (the week of February 11), and will announce detailed tender information 25 days in advance of each individual tender. All announcements on government tenders will use WTO language, and tenders will be conducted according to the Government Procurement Law or WTO Government Procurement Agreement (GPA) requirements. Detailed tender information will be available online at the Central Trust of China (CTC) website <http://www.ctoc.com.tw/>. A bid bond and a performance bond will be required. According to CTC, bid bonds are normally set at no more than 5 percent and performance bonds at no more than 15 percent of the estimated value of the procurement contract. Information on payment terms or procedures is not yet available.

Market for Imported Rice

Participants in the Taiwan rice market appear to be anticipating the market opening. Certain high quality rice millers have cut their purchases of the Spring crop, harvested May to August, in preparation both for competition from imports and also with the idea of importing high quality foreign rice. Private rice imports are anticipated to peak from February to May. Post expects COA to tender during the off seasons, i.e., from February to May and from August to October.

Post anticipates that premium US#1 medium grain rice will be price competitive, including the import quota markup, with locally grown CAS (China Agricultural Standard) and CNS 1st grade rice. CAS and CNS 1st grade rice represent five percent of the total rice market or approximately 65,000 mt. See Appendix for CNS grades for milled and brown rice.

In March 2000, COA initiated the "Taiwan Good Rice" promotional program to attempt to segregate the rice market by qualities and varieties. Local consumers now are willing to pay premiums for recognized premium varieties, such as Koshihikari rice which is priced at NT\$90/kg or even higher depending on grades. Premium quality rice with the "Taiwan Good Rice" logo is priced at NT\$60/kg, compared to an average retail price for CNS 1st grade at NT\$53.63/kg, CNS 2nd grade at NT\$41.78/kg, and CNS 3rd grade at NT\$41.61/kg. "Taiwan Good Rice" is certified by COA as meeting the CAS rice standard. The CAS standards were established by adding quality control standards into the existing CNS standards.

The key for private imports of U.S. rice will be for importers to obtain a high enough price on the local market so that they can pay a relatively high markup to the Taiwan government for the quota rights. While there will likely be relatively few, if any, applications for quota rights at a markup of NT\$23.26/kg, as the markup decreases in NT\$3/kg increments, more importers will find it lucrative to apply. For example, for rice

equivalent to CNS 1st grade, a markup of NT\$17.26/kg, equivalent to about \$500/mt, allows about NT\$36/kg, or somewhat over \$1,000/mt, to cover the CIF cost of imports and wholesale and retail costs and profit margins based on the average retail price of NT\$53.63/kg.

Exporters should note that with the lifting of the ban on rice imports, rice samples may now be mailed/shipped to prospective buyers. The sample size is limited to one kilogram per mailing to an individual recipient. In addition, international travelers may bring in one kilogram in their personal baggage through Customs.

Market Opportunities and Challenges for U.S. Rice

- < *Market Opportunities for U.S. Japonica Medium Grain Rice:* A diversity of rice quality and variety on the Taiwan market provides potential market niches for U.S. medium grain rice through private import channels. Consumer pack rice accounts for 35 percent of the total market of 1,205 TMT or about 420 TMT. CAS grade rice has a one percent market share of the total consumer pack market, CNS 1st grade 14 percent, CNS 2nd grade 26 percent, and CNS 3rd grade or poorer 60 percent. Therefore, the market niche for premium U.S. medium grain rice is 15 percent of the consumer pack market or 63 TMT. Government purchases, totaling over 90 TMT, will likely be by CNS 2nd and 3rd grade brown rice for local milling.
- < *Market Opportunities for Long Grain and Other Rice:* Taiwan's food market is vibrant. Almost any new food or food fashion with a good promotional effort can be marketed.
- < *Market Opportunities for Organic Rice:* The local organic industry has expressed interest in U.S. organic brown rice and it appears likely that one or more major convenience store chains will carry it. Taiwan has very limited organic rice production, accounting for only 0.3 percent of total output. Organic brown rice is viewed as a clean and natural source of the B vitamin group which is considered an essential nutrient supplement to vegetarians.
- < *Market Challenges from Australia Rice:* Australia has promoted two varieties, Sunrise and Koshihikari on Taiwan. Local consumers are conscious about healthiness due to cadmium and mercury contamination incidents and pesticide concerns. Australia has promoted their rice as "clean rice" due to its climate and rice growing season.
- < *Market Challenges from Domestic Koshihikari Rice:* According to a local koshihikari rice miller, domestic Koshihikari rice will be competitive with imported rice. According to the miller, Australian is not as tasty while the U.S. variety has a slightly yellowish color which may not be attractive to local buyers.
- < *Market Challenges from Thai Rice or Jasmine Rice:* According to the Council of Labor Affairs (CLA), Taiwan has 310,000 foreign workers from Southeast Asia. One supermarket chain plans to import Thai rice to meet this demand. Reportedly, some importers are also interested in Thai Jasmine rice.
- < *PRC rice:* Despite both the People's Republic of China and Taiwan both acceding to the WTO, there is still some uncertainty over Taiwan's application of Most-Favored Nation principles as regards agricultural trade with China. Reportedly, one Taiwan food company and some Japanese companies have invested in production of japonica rice varieties in Heilongjiang province. Low cost PRC japonica rice would present significant competition in this market.

Impacts and Adjustments to the Domestic Rice Sector

- *Domestic Rice Production:* Taiwan plans to cut its rice production area by 9 percent to 310,000 hectares in an attempt to balance increased supply from MMA imports. This is because Taiwan has committed to stop placing surplus rice onto the world market at discounted prices after WTO entry, and because domestic rice is not price competitive on the world market. Domestic rice production costs vary between \$550/mt and \$820/mt (milled basis) depending on crop season and producing region.
- *Stabilization of Domestic Rice Market:* COA predicts that rice prices will decrease due to competition from imported rice. COA will increase budgets for guaranteed purchases and guidance purchases (see Appendix 2). COA forecasts that guaranteed/guidance purchases will increase 21 percent, 35 percent, and 47 percent from the year 2000's 510,000 mt, if the farm gate price drops below 90 percent, between 80 percent and 90 percent, and below 80 percent of the guidance price, respectively. COA will also provide low interest rate loans to rice merchants to encourage them to purchase paddy rice from farmers when the farm gate price drops below 90 percent of the production cost, and will compensate rice farmers for the price differences if market price falls below 80 percent of the production cost.

Rice production on Taiwan is a very small-scale industry. On average, a farmer has one hectare of land for production. Therefore, a farmer doesn't own barns to stock rice on the farm. Farmers sell rice immediately after harvest.

- *To Encourage Farmers to Grow Organic Rice.* Domestic grown organic rice is priced twice or even higher than conventional rice. Current organic production is 1,000 hectares. However, Taiwan's organic rice might not be able to compete with imported certified organic rice due to a transition of the certification program from COA Agricultural Improvement Stations to private certifying agencies. To date, only one certifying agency, the Mokichi Okada Association (MOA) of the International Foundation for Natural Ecology is accredited by COA.
- *To Promote Premium Quality Rice:* In March 2000, COA initiated the "Taiwan Good Rice" promotional program to segregate the rice market by qualities and varieties. Local consumers now are willing to pay premiums for recognized premium varieties, such as Koshihikari rice which is priced at NT\$90/kg or even higher depending on the grade. Premium quality rice with the "Taiwan Good Rice" logo is priced at NT\$60/kg, compared to an average retail price for CNS 1st grade at NT\$53.63/kg, CNS 2nd grade at NT\$41.78/kg, and CNS 3rd grade at NT\$41.61/kg. "Taiwan Good Rice" is a licensed rice which meets the Chinese Agriculture Standard (CAS) rice. The CAS standards were established on the basis of the Chinese National Standards (CNS) by adding quality control standards into the existing CNS standards (see Appendix 1 for CNS rice grades).

Distribution Channels for Imported Rice

The chart below illustrates the standard distribution channels for rice and the points at which imported rice, both private and government purchases, is expected to enter the system.

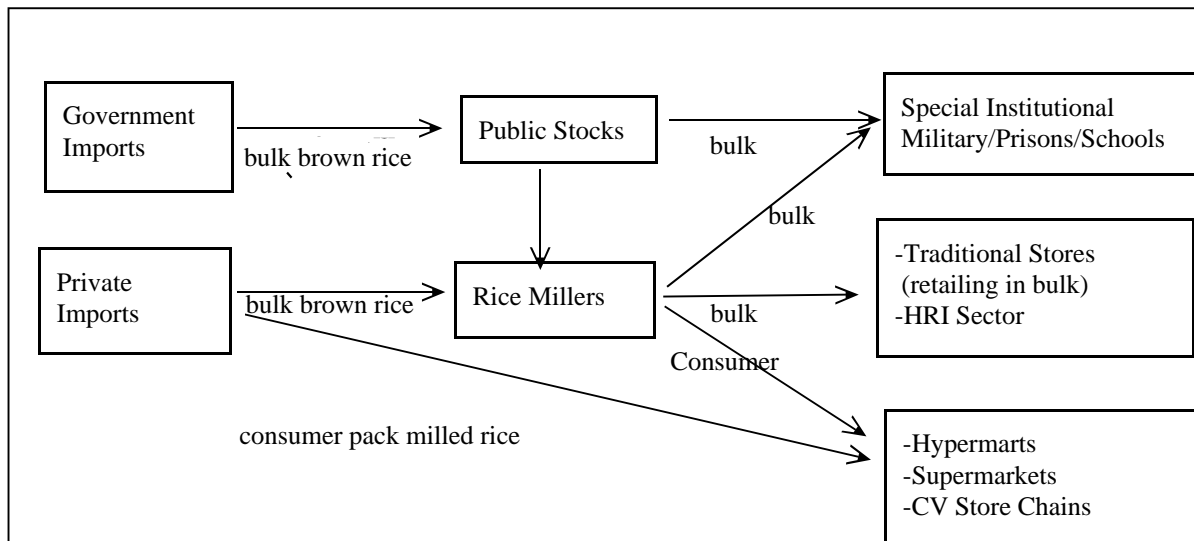
Note for Chart below:

Common Package Sizes:

bulk brown rice - 40 kg bags

bulk milled rice - 20-30 kg bags

consumer paked milled rice - 4.5 to 5 kg bags



- *Private Imports:* Private imports will likely be milled rice in consumer packaging for retail sale to consumer households. Many chain stores, including convenience stores, supermarkets and hypermarkets, are interested in direct imports. Premium quality rice is usually packaged in 1 to 3 kilogram vacuum-pack plastic bags. In general, rice is distributed at supermarket and hypermarket chains in 4.5 to 9 kilogram bags, with the most popular package size either 4.5 or 5 kilograms. On Taiwan, laminated poly propylene is the most popular packaging material for rice and it maintains good quality for three months from the milling date.
- *Market Prices at Different Stages of Processing:* Due to recent typhoon damage, COA reported that the average farm gate price of paddy had jumped 5 percent to NT\$19.91/kg (equivalent to NT\$28.28/kg milled rice), while the average milled rice wholesale price is NT\$30.73/kg, and the retail price is NT\$35.2/kg. Consumer pack rice is about NT\$5/kg higher. These are average prices for CNS 2nd and 3rd Grade rice.
- *Government Imports:* Post expects that government imports will enter public stocks which also include guaranteed purchase and guidance purchase rice. Public stocks are routinely released to so-called special HRI sectors - the military, prisons, and schools. According to current practices, public stocks are released directly onto the market only when the market price surges above the market tolerant price level. The market tolerant price for rice is solely determined by the COA and is calculated on the basis of domestic production costs and the supply and demand situation. Public stocks are carried in large bags. With respect to public warehousing facilities and the concerns about maintaining rice freshness, it is likely that COA will import brown rice in 40 kg. bags.

Imported Rice Inspection

Rice imports will be subject to inspection for both food safety and food quality. Imported rice already in consumer packs for individual sales must meet Taiwan's packaging and labeling requirements. The COA, Taiwan Department of Health (DOH), and the Bureau of Standards, Metrology and Inspection (BSMI) are all authorized to inspect rice at various stages from post-harvest to final consumer or HRI purchase.

- *BSMI:* BSMI inspects rice at ports of entry.
- *DOH:* The DOH inspects milled rice in storage at rice mills and in packaging plants.
- *COA:* The COA inspects packaged rice at retail outlets.

Labeling Requirements

COA is revising the current labeling requirements for consumer pack rice to adapt to imported rice. Labels must indicate the following information in Traditional Chinese characters according to the draft new labeling requirements:

-Product Name (for example, milled rice, brown rice, or milled rice with endosperm.)

-CNS Grade or Quality Characteristics which must cover all the characteristics described in the CNS standards (see Appendix for CNS grading standards). Note: the quality grades of foreign country standards are not acceptable.

-Net Weight in grams or kilograms.

-Production Area - imported consumer pack rice must show country of origin

-Date of Milling

-Expiration Date - usually 3 to 6 months after milling

-Name, telephone number, and detailed address of miller

-Name, telephone number, and detailed address of importer

(Labeling information other than the above listed is optional.)

Labels must use Taiwan official, traditional, Chinese characters. Taiwan does not accept simplified Chinese characters which are currently in use in the PRC. Size of Chinese characters on the label must not be smaller than 5 millimeters. It is acceptable to use smaller size of Chinese characters only when the size of a rice package is smaller than 50 square centimeters, however, labeling for "net weight" and "country of origin" must be larger than 2 millimeters.

Packages of mixed grains, made up of more than 50 percent rice must also meet the rice labeling requirements. Rice in bulk for HRI use is not required to meet the labeling requirements.

Labeling of "crop year" and "varieties" reported in the TW0004 are no longer required on consumer pack rice according to the draft new labeling requirements.

Current exchange rate: U.S.\$1.00=NT\$35.

References: AIT/AGR Taipei reports - TW9053, TW0004 & TW1017

Appendix 1 - China National Standards for Milled and Brown Rice

Milled Rice - Variety			Japanese type non-glutinous rice		
Grade			Grade A*	Grade B*	Grade C*
Characteristics			Plump, uniform and brilliant kernels		
Maximum Standard (%)	Moisture		14.5	14.5	14.5
	Defects	Total	1	2	4
		Colored Kernels	0.1	0.3	0.5
	Chalky kernels		5	10	15
	Broken kernels		5	10	15
	Other variety		1	3	5
	Foreign materials	Total	0.1	0.2	0.3
		Dirt & Sand	0	0	0
	Brown rice		0	0	0.1
	Paddy		0	0	0.1

Note: * Grades A, B, and C are commonly referred to as 1st, 2nd, and 3rd Grades, respectively.

Brown Rice - Variety			Japanese type non-glutinous rice		
Grade			Grade A*	Grade B*	Grade C*
Characteristics			Plump, uniform and brilliant kernels		
Minimum Standard (%)	Sound kernels		75	65	55
Maximum Standard (%)	Moisture (1)		14.5	14.5	14.5
	Defects, Chulky Kernels, Other Variety, Broken Kernels, Bad Kernels	Total	15	20	25
		Bad Kernels	4	6	8
		Colored kernels	0.2	0.3	0.5
		Sprout kernels	0.3	0.4	0.5
		Chalky kernels	3	5	7
		Broken kernels	2	3	4
		Other variety kernels	1	3	5
	Foreign materials		0.1	0.2	0.3
	Paddy		0.2	0.3	0.5

Note: * Grades A, B, and C are commonly referred to as 1st, 2nd, and 3rd Grades, respectively.

Appendix 2 - Taiwan's Rice Purchase Programs

	Guaranteed Purchase (paddy basis)	Guidance Purchase (paddy basis)
Variety	Price NT\$/kg (\$/mt)	Price NT\$/kg (\$/mt)
Japonica rice	21 (608)	18 (522)
Indica rice	20 (580)	17 (493)
	Quantity kg/ha	Quantity kg/ha
The Spring crop	1,920	1,200
The Fall crop	1,440	800
Total	3,360	2,000
<p>Note: Two voluntary programs exist under which farmers can sell rice to Taiwan central authorities for pre-established prices: the guaranteed purchase program, and the price guidance program. Sales under these programs are limited to certain quantities per hectare. Rice accumulated under these two programs is released by the central authorities when market prices exceed a pre-established ceiling. If a farmer were to sell the maximum per-hectare quantities allowable under these two programs, program sales would roughly equal half of his total production.</p>		